

## Terms and Conditions for Joint Agreements Between BPA and PGE

This Terms and Conditions for Joint Agreements Between BPA and PGE ("Term Sheet") sets forth the principal commercial terms and conditions to be incorporated into one or more definitive agreements including, but not limited to, a Joint Transmission Planning and Development Agreement and a West of Cascade South (WOCS) Operating Agreement (collectively the "Agreements") that Portland General Electric Company ("PGE") and the Bonneville Power Administration ("BPA") intend to negotiate. The Parties expect these Agreements to address certain issues of common interest between PGE and BPA regarding the development, construction, ownership, maintenance, operation and use of electric transmission and associated facilities in the Pacific Northwest, including the Cascade Crossing Transmission Project: a 500 kV transmission line which, when completed, will extend from Boardman, Oregon to the vicinity of Salem, Oregon and will include new or upgraded substations, interconnections and other necessary equipment and facilities (hereafter the "CCTP" or the "Project").

1. Parties PGE and BPA (each a "Party" and together, the "Parties")
2. Effective Date The Parties intend to enter into the Joint Transmission Planning and Development Agreement no later than April 1, 2012, and the WOCS Operating Agreement no later than September 1, 2012.
3. Substance of Agreement The Parties shall negotiate in good faith to address and resolve the issues of common interest, which are described in Attachment 1 hereto, in the context of the Agreements and consistent with the provisions of this Term Sheet and the following general principles:
  - a) The Agreement must be good for the Northwest as a whole; the goal is to strengthen the integrity of the Grid - removing constraints, adding capacity, and improving reliability for the next 60 + years. PGE and BPA are interested in promoting diversity to the existing transmission ownership model
    - Leveraging the opportunity to achieve together what neither could accomplish independently
    - Leveraging ownership and capital financing opportunities
  - b) The Agreement must be good for BPA customers as a whole and PGE customers as a whole
    - There shall be no cost shifting without associated benefits
    - Changes to revenue streams need early notice and adequate ability to manage impacts

- c) BPA and PGE are committed to cost effective, reliable integration of wind consistent with Item B. BPA and PGE are committed to satisfy applicable regulatory obligations of providing energy for customer and network load consistent with the Renewable Energy Standard.
- d) Allocation of the increase to the West of Cascades South (WOCS) path capacity rating, as a result of the addition of the Cascade Crossing Project, will be the net between the current path capacity rating and the new path capacity rating as a whole. The respective parties' current allocation of the path rating will be kept whole. As a result of the addition of the Cascade Crossing Project other significantly impacted paths will need to be considered.
- e) BPA and PGE are committed to demonstrate a collaborative decision making process to enhance the regional transmission capabilities. Any disputes unable to be resolved by the respective working teams will be elevated to each Party's respective executives for resolution.

Collectively, the Agreements would address, among other things, those issues of concern to PGE and BPA as such issues relate to the development, construction, ownership, operation and use of the Project and other transmission facilities as may be identified by the Parties.

#### 4. Authorizations and Approvals

Each Party would be responsible for obtaining, at its own expense, its required authorizations and Board approval, if any, relating to its participation in the construction, ownership, operation, maintenance or use of the Project or other facilities, and to its performance of the terms and provisions of the Agreements, from federal, state or local regulatory authorities having jurisdiction to issue such authorizations and approvals.

Nothing in this Term Sheet shall be construed as committing either Party to take any action concerning the items identified in Attachment 1 before PGE has obtained Board and other regulatory approvals, and each has complied, respectively, with all applicable statutes and regulations, including, but not limited to, state siting requirements and assessment of environmental impacts under the National Environmental Policy Act.

5. Other Covenants

The Parties would make affirmative and negative covenants as are customary for transactions similar to those contained in the Agreements.
6. Representations and Warranties

The Parties would make representations and warranties to each other in the Agreements (subject to customary knowledge and materiality qualifiers to be agreed) that will address the following matters: due incorporation and organization; good standing; due authorization; full capacity and powers; no violation of, or conflict with, law or organizational documents; no outstanding litigation or proceeding that would affect any Party's ability to enter into and perform its obligations under the Agreements; compliance with applicable laws; enforceability of the transaction documents and related matters; governmental approvals; and regulatory matters.
7. Other Terms and Conditions

The Agreements would also contain provisions relating to the following matters: definitions and interpretation; amendments and waivers; exhibits; cumulative remedies; successors and assigns; severability; confidentiality; headings; counterparts and other miscellaneous provisions.
8. Confidentiality

All information exchanged in connection with the preparation and negotiation of this Term Sheet (not including this "Terms and Conditions for Joint Agreements Between BPA and PGE") shall constitute "Confidential Information" subject to the terms and conditions of that certain Confidentiality and Non-Disclosure Agreement, dated as of January 25, 2011 between the Parties (the "Confidentiality Agreement"). Notwithstanding the foregoing, the Parties agree that either Party may post non-Confidential Information (as defined in the Confidentiality Agreement) related to the Memorandum of Understanding, dated as of January 25, 2011, between the Parties and its renewal on such Party's OASIS site for public disclosure.
9. General Provisions
  - a) Nothing in this Term Sheet shall limit, repeal, or in any manner modify the existing legal rights, privileges, and duties of each of the Parties as provided by agreement (including the Confidentiality Agreement), statute or any other law or applicable court or regulatory decision.
  - b) This Term Sheet may not be amended except in a writing signed by both of the Parties.
  - c) Any Party may withdraw from this Term Sheet at any time, for any reason whatsoever or for no reason, after thirty (30) days written notice to the other Party of the intent to do so.
  - d) This Term Sheet is for the sole and exclusive benefit of the Parties and shall not create a contractual relationship with, or cause of action in favor of, any third party.

e) Each Party shall be solely responsible for and shall pay its own costs and expenses incurred by it in connection with the negotiation of this Term Sheet and all other agreements, documents and instruments related hereto and thereto.

f) Each Party acknowledges and agrees that the other Party's decision to proceed with any or all of the Agreements and any other decision with respect to the Agreements is within such Party's sole and absolute discretion.

g) In no event shall either Party be liable to the other Party hereto for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise) under or in respect of this Term Sheet or for any failure of performance related hereto howsoever caused, whether or not arising from such party's sole, joint or concurrent negligence.

h) This Term Sheet shall not be deemed to establish any right or provide a basis, either legal or equitable, by any person or class of persons against the United States, its departments, agencies, instrumentalities or entities, or its officers or employees, challenging a government action or failure to act, or against PGE or its board of directors, officers, employees, or agents.

i) Insofar as the issues of common interest between PGE and BPA identified in Attachment 1 all relate to the development, construction, ownership, maintenance, operation and use of electric transmission and associated facilities in the Pacific Northwest, it is the intent of the Parties that such issues will be considered, and resolved, collectively and that the Agreements will reflect the collective resolution of such issues.

#### Non-Binding

This Term Sheet is not a binding and enforceable contract and is intended to set forth certain basic terms and to serve as a basis for further discussion and negotiations between the Parties with respect to the Agreements described herein. This Term Sheet does not constitute an offer, agreement or commitment and does not contain all matters to be reflected in the Agreements.

Hand delivered 12/22/11 @ 3:00 PM

IN WITNESS WHEREOF, each Party has executed this Term Sheet on the date set forth below.

**PORTLAND GENERAL ELECTRIC COMPANY**

By: Frank Afranji  
Name: Frank Afranji  
Title: Director of Transmission & Reliability  
Date: 12-22-2011

**BONNEVILLE POWER ADMINISTRATION**

By: Craig Hardin  
Name: Craig Hardin  
Title: Transmission Account Executive  
Date: December 22, 2011

## ATTACHMENT 1

### ISSUES OF COMMON INTEREST

#### **Issue 1): West Of Cascade South (WOCS) Capacity**

#### **Target Date to Completion:**

Initial – December 31, 2011

Acceptance: ☒ Technical ☒ Commercial

☒ BPA ☒ BPA

☒ PGE ☒ PGE

Final – April 1, 2012

Acceptance: ☒ Technical ☒ Commercial

☐ BPA ☐ BPA

☐ PGE ☐ PGE

**Resolution:** The current WOCS path rating is assumed to be 7200MW. The Big Eddy-Knight project is projected to add 500MW to the current WOCS path rating. CCTP will add more capacity to the WOCS path. After Big Eddy Knight (and associated system reinforcements), CCTP, and additional system reinforcements identified below are complete, the projected path rating of WOCS is 8900MW.

Round one and two planning studies have identified the following system reinforcements for CCTP:

#### Portland Area

- 1) Accelerate the in-service date for PGE's Blue Lake to Gresham 230 kV line.
- 2) Re-terminate and re-conductor PGE's McLoughlin – Pearl tap – Sherwood 230 kV.
- 3) Accelerate the in-service date for separation of PGE's Pearl to Sherwood 230 kV lines into new breaker positions.
- 4) Re-conductor PGE's Murray Hill to St Mary's 230 kV line, from 1272 AAC to 1272 ACSS.

#### Salem/Albany

- 1) Re-conductor PAC's Bethel-Fry 230 kV line or add a second 230 kV line from Bethel to Fry (would require coordination with PAC as they own the existing Bethel-Fry 230 kV line).
- 2) Re-conductor PGE's Market to Middle Grove 115 kV from 795 AAC to 795 ACSS.

#### **Action:**

#1) Additional studies (see below listing) by BPA/PGE will continue in an effort to confirm effectiveness of identified system reinforcements listed above and determine others that may be required as a result of the Round three studies. A) Priority 1 studies, B) Priority 2 studies, C) Priority 3 studies

The path rating will be confirmed by the WECC process.

#2) Comments to be submitted by BPA on scope of system reinforcements required and scope and schedule for future reinforcements.

#### **Action Due:**

#1) Current system reinforcements and future reinforcements identified prior to: A) March 15, 2012

B) Due dates will be established on March 15, 2012; C) Due dates will be established on March 15, 2012.

#2) Comments were submitted Dec. 20th, 2011.

The following Round three studies need to be completed:

**First Priority:**

- #1 Complete remaining VAR Margin studies
- #2 Complete 10-year load case evaluation
- #3 Complete "Watch List" transmission studies
- #4 Investigate Additional System Reinforcements for Portland and Salem/Albany areas

**Second Priority:**

- #1 Start Transient Stability Studies
- #2 Start Fault Duty Studies
- #3 Start I-5 Corridor Reinforcement Project effects
- #4 Start Boardman to Hemingway Project effects

**Third Priority:**

- #1 Light Load Case Analysis

**Issue 2): CCTP Allocation of WOCS Capacity**

**Target Date to Completion:**

Initial – December 31, 2011

Acceptance: ☒ Technical ☒ Commercial  
☒ BPA ☒ BPA  
☒ PGE ☒ PGE

Final – April 1, 2012

Acceptance: ☒ Technical ☒ Commercial  
☐ BPA ☐ BPA  
☐ PGE ☐ PGE

**Resolution:** The projected WOCS path rating after Big Eddy – Knight, CCTP, and the associated system reinforcements are complete is 8900MW. CCTP would be allocated 1200MW additional firm capacity, and BPA and PGE will negotiate and document in the WOCS Operating Agreement the use of the remaining capacity. BPA confirmed that WOCS is not a "scheduled path" but rather a "monitored path" where the BPA operators monitor actual path loading to ensure it is within reliability determined limits. If PGE "scheduled" resources across CCTP and the resulting flows on WOCS, including CCTP, were less than the defined limit, then this would be operationally acceptable. In the event actual flows were or could exceed the defined path limit, then operators would invoke some type of protocol.

Note: The attached 'illustrative Nomogram', Exhibit 1, serves as an example of the methodology that will be negotiated and documented in an operating agreement to address the utilization of the remaining capacity. The points shown are for discussion purposes only.

As mentioned by BPA, WOCS is a monitored path. Given the increase in WOCS rating with both projects (Big Eddy – Knight and CCTP), there may be a need to monitor this path as a "scheduled path" as new resources are added to this area. If WOCS becomes a scheduled path as part of the BPA network, the schedules on this path would be monitored by BPA's tagged based curtailment tool (ICRUS). If this remains a monitored path, the Parties will work together to resolve operational protocols.

**Action:**

#1) PGE to draft an operating agreement for BPA review that discusses: scheduling and curtailment protocols, capacity increases and the allocation methodology due to system enhancement, load growth, and/or additional generation. Both TTC and ATC need to be addressed by the operating agreement.

#2) BPA to submit clarifying comments.

**Actions Due:**

#1) TBD

#2) March 15<sup>th</sup>, 2012

<p><b>Issue 3): PGE has expiring Boardman and Coyote contracts with BPA transmission 12/31/2014. A solution needs to be developed. PGE is willing to jointly build, contribute equity, and/or purchase capacity rights to bridge to the CCTP in-service date.</b></p>	<p><b>Target Date to Completion:</b>  Initial – December 31, 2011  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input checked="" type="checkbox"/> BPA <input checked="" type="checkbox"/> BPA  <input checked="" type="checkbox"/> PGE <input checked="" type="checkbox"/> PGE  Final – April 1, 2012  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input type="checkbox"/> BPA <input type="checkbox"/> BPA  <input type="checkbox"/> PGE <input type="checkbox"/> PGE</p>
<p><b>Resolution:</b> PGE needs to understand the BPA interests and discuss a proposal for PGE equity contributions that will result in an additional 641MW of capacity ownership by PGE on the existing WOCS path from 1/1/2015 to at least the in-service date for CCTP.</p> <p><b>Action:</b>  #1) BPA and PGE will negotiate in good faith to develop a proposal for PGE equity contributions that will result in an additional 641MW of capacity ownership by PGE on the WOCS path from 1/1/2015 to at least the in-service date for CCTP. Service under the BPA OATT may be required.</p> <p><b>Action Due:</b>  #1) April 1<sup>st</sup>, 2012</p>	
<p><b>Issue 4): Coyote Connections at Longhorn</b></p>	<p><b>Target Date to Completion:</b>  Initial – December 31, 2011  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input checked="" type="checkbox"/> BPA <input checked="" type="checkbox"/> BPA  <input checked="" type="checkbox"/> PGE <input checked="" type="checkbox"/> PGE  Final – April 1, 2012  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input type="checkbox"/> BPA <input type="checkbox"/> BPA  <input type="checkbox"/> PGE <input type="checkbox"/> PGE</p>
<p><b>Resolution:</b> Transmission planning efforts have demonstrated that technically the PGE Coyote Springs connection can be made at Longhorn; studies continue to try to identify additional mitigation or up-grades that may be required. It has been suggested to BPA additional property may need to be secured to assure sufficient future growth. BPA held a conference call with interested transmission providers on Dec. 6<sup>th</sup>, 2011 to discuss land acquisitions for Longhorn substation including potential future expansion plans in this area.</p> <p><b>Note:</b> The Coyote substation and lines will revert to Plant ownership and BPA will operate out of the proposed Longhorn Station.</p> <p><b>Action:</b>  #1) PGE participated in the land call. PGE wishes to be an equity owner in the Longhorn Station, the intent is to acquire capacity through equity participation.  #2) BPA will involve interested transmission providers in the Longhorn planning studies.  #3) BPA scheduled a Conf. call with interested transmission providers to discuss the proposed Longhorn connection plans.  #4) BPA and PGE will negotiate in good faith to develop a proposal for PGE equity contributions that will result in capacity ownership on associated paths.  #5) PGE will work to involve additional transmission providers in Longhorn planning conversations.</p> <p><b>Action Due:</b>  #1) Completed Dec. 6<sup>th</sup>, 2011</p>	



#2) ASAP, no later than next scheduled joint planning meeting.

#3) March 15<sup>th</sup>, 2012

#4) April 1<sup>st</sup>, 2012

#5) Completed Dec. 20<sup>th</sup>, 2011

**Issue 5): Connection at Santiam**

**Target Date to Completion:**

Initial – December 31, 2011

Acceptance: ☒ Technical ☒ Commercial

☒ BPA ☒ BPA

☒ PGE ☒ PGE

Final – April 1, 2012

Acceptance: ☒ Technical ☒ Commercial

☐ BPA ☐ BPA

☐ PGE ☐ PGE

**Resolution:** Transmission planning efforts have demonstrated that one of the two circuits for the CCTP 500kV line can be connected at Santiam. While contemplated as a double-circuit, it is possible that it could go forward as a single-circuit. Currently identified system reinforcements are listed in Issue #1.

**Action:**

#1) BPA/PGE have identified system reinforcements required (see Issue #1 listing); these planning efforts need to include PacifiCorp as some of the required reinforcements are to their facilities.

#2) BPA and PGE will negotiate in good faith to develop a proposal for PGE equity contributions that will result in capacity ownership on the WOCS path.

**Action Due:**

#1) Complete: PGE has notified PAC, and has also sent a reminder notice.

#2) April 1<sup>st</sup>, 2012

**Issue 6): Capacity Issues Santiam to Pearl)**

**Target Date to Completion:**

Initial – December 31, 2011

Acceptance: ☒ Technical ☒ Commercial

☒ BPA ☒ BPA

☒ PGE ☒ PGE

Final – April 1, 2012

Acceptance: ☒ Technical ☒ Commercial

☐ BPA ☐ BPA

☐ PGE ☐ PGE

**Resolution:** The Parties will discuss contributing equity capital to make the modifications required for PGE's connection at Santiam and sufficient additional contribution to become an equity owner and to acquire the additional capacity for 500 - 700MW to the Pearl Station. Service under the BPA OATT may be required.

**Action:**

#1) BPA and PGE will negotiate in good faith regarding PGE's equity contributions that will result in capacity ownership between Santiam and Pearl. Service under the BPA OATT may be required.

#2) BPA/PGE planners must evaluate if an additional path definition may be required, if so it will need to be addressed in an operating agreement.

**Action Due:**

#1) April 1<sup>st</sup>, 2012

#2) March 15<sup>th</sup>, 2012 for the determination if an additional path definition is required and TBD for the initiation of an operating agreement.

<p><b>Issue 7): PGE needs to consider using the idle BPA easement; both on the CTWS reservation and across the Forest Service property in the Brietenbush area.</b></p>	<p><b>Target Date to Completion:</b>  Initial – December 31, 2011  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input checked="" type="checkbox"/> BPA <input checked="" type="checkbox"/> BPA  <input checked="" type="checkbox"/> PGE <input checked="" type="checkbox"/> PGE  Final – April 1, 2012  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input type="checkbox"/> BPA <input type="checkbox"/> BPA  <input type="checkbox"/> PGE <input type="checkbox"/> PGE</p>
<p><b>Resolution:</b> In progress.</p> <p><b>Action:</b></p> <p>#1) PGE to forward the proposed idle easement sketch.</p> <p>#2) Complete the environmental survey activity and if acceptable;</p> <p>#3) BPA will negotiate in good faith with the CTWS, pursuant to its Section 81 Agreement, to release all or a portion of its use of the land within the idle easement to PGE. BPA will negotiate with USFS for the release of the appropriate forest service land, or portion thereof, to accommodate PGEs use of such idle easement across such forest service lands. BPA and PGE will negotiate the terms and conditions associated with such releases and cooperate on the expansion of the appropriate easements, all within the context of the Joint Transmission Planning and Development Agreement, or such other agreement(s) as may be appropriate.</p> <p>Note: This will require removing some of the idle easement conductor and structures as well as supplemental easement clearing. It also will be necessary to widen the easement approx. 100'.</p> <p>#4) BPA and PGE will work together to assess the proposed line crossings, as well as adding PGE circuits to the BPA double circuit structures, outage coordination, line transfer plans, and operating procedures.</p> <p><b>Action Due:</b></p> <p>#1) Completed the week of Dec. 5<sup>th</sup>, 2011.</p> <p>#2) Spring 2012</p> <p>#3) Spring 2012</p> <p>#4) March 15<sup>th</sup>, 2012</p>	
<p><b>Issue 8): Current East to West demand on the BPA system and need for re-enforcement; (McNary - Longhorn - Grassland - Slatt)</b></p>	<p><b>Target Date to Completion:</b>  Initial – December 31, 2011  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input checked="" type="checkbox"/> BPA <input checked="" type="checkbox"/> BPA  <input checked="" type="checkbox"/> PGE <input checked="" type="checkbox"/> PGE  Final – April 1, 2012  Acceptance: <input checked="" type="checkbox"/> Technical <input checked="" type="checkbox"/> Commercial  <input type="checkbox"/> BPA <input type="checkbox"/> BPA  <input type="checkbox"/> PGE <input type="checkbox"/> PGE</p>
<p><b>Resolution:</b> PGE's suggested solution is a connection from the BPA Longhorn Station to McNary. This would facilitate a McNary to Slatt connection. PGE is interested in discussing the potential of partnering on the McNary to Longhorn addition, and BPA capacity needs from Longhorn to Slatt.</p>	

**Action:**

- #1) The electrical performance of this proposed, McNary – Longhorn, solution should be included in the joint studies being performed by PGE and BPA Planners.
- #2) BPA and PGE will negotiate in good faith regarding PGE equity contributions that will result in capacity ownership on the WOCS path. Service under the PGE OATT may be required between Longhorn and Slatt.
- #3) Regional transmission planners need to perform technical studies to understand the impact of both CCTP and B2H potentially terminating at Longhorn.

**Action Due:**

- #1) March 15<sup>th</sup>, 2012
- #2) April 1<sup>st</sup>, 2012
- #3) March 15<sup>th</sup>, 2012

**Issue 9): Future need for reinforcement of the Willamette Valley****Target Date to Completion:**

Initial – December 31, 2011

Acceptance: ☒ Technical ☒ Commercial☒ BPA☒ BPA☒ PGE☒ PGE

Final – April 1, 2012

Acceptance: ☒ Technical ☒ Commercial☐ BPA☐ BPA☐ PGE☐ PGE

**Resolution:** Parties will discuss the need and timing to build the Santiam/Marion/ Pearl 500kV connection and other future system reinforcements.

**Action:**

- #1) Reference Issue #5 and the currently identified system reinforcements under Issue #1.

**Action Due:** TBD**Issue 10): Future Plans for the I-5 Corridor****Target Date to Completion:**

Initial – December 31, 2011

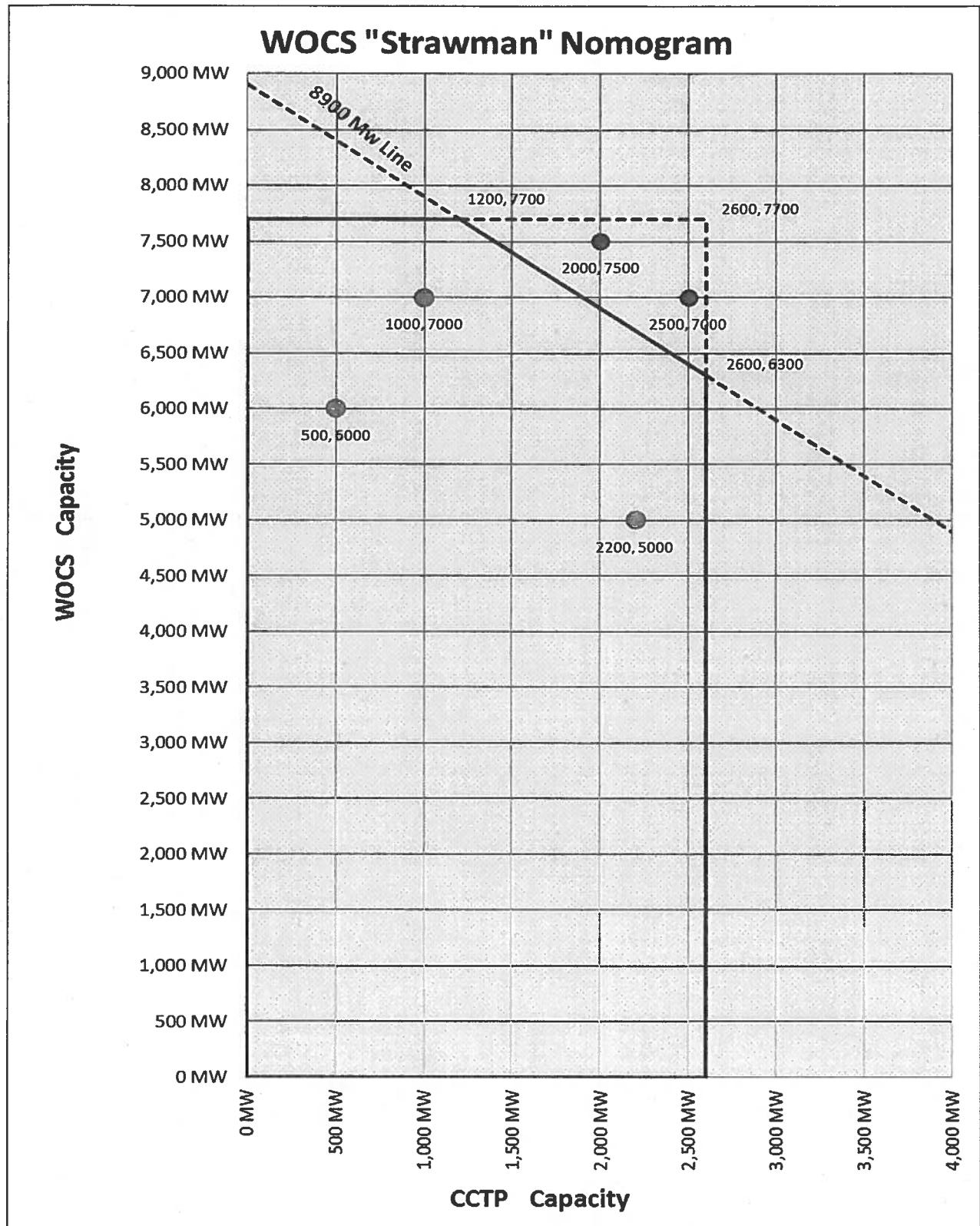
Acceptance: ☒ Technical ☒ Commercial☒ BPA☒ BPA☒ PGE☒ PGE

Final – April 1, 2012

Acceptance: ☒ Technical ☒ Commercial☐ BPA☐ BPA☐ PGE☐ PGE**Resolution:** In progress.**Note:** Draft EIS due in Spring 2012**Action:** The Parties will perform technical studies and share information as appropriate.

<b>Issue 11): Potential Equity Opportunities for Mutual Consideration</b>	<b>Target Date to Completion:</b> On-going
<p><b>Resolution:</b> The following is a partial listing (to be augmented as additional opportunities become known) of equity opportunities to be considered: Longhorn Station, Longhorn - McNary build, capacity from Longhorn to Slatt, Santiam Station up-grades, Trojan – Horizon capacity, Big Eddy - Knight equity participation, and line loss savings. The equity contributions are designed to provide: 500 to 700MW capacity ownership from Santiam to Pearl, 641MW capacity on the WOCS path, and a foundation for a bridging strategy for Boardman and Coyote with an option for Carty.</p> <p><b>Action:</b> #1) Resolution of the negotiations for equity participation.</p> <p><b>Action Due:</b> #1) April 1<sup>st</sup>, 2012</p>	

# Exhibit 1



Note: The 'illustrative Nomogram', above, serves as an example of the methodology that will be negotiated and documented in an operating agreement to address the utilization of the remaining capacity. The points shown are for discussion purposes only.